

PLAN TO ASSURE HMO ACTUARIALLY SOUND RATES

(FY2006 Appropriation Bill - Public Act 154 of 2005)

May 30, 2006

Section 1700(2): (1) The department, in consultation with the Michigan association of health plans, shall develop a plan to assure that Medicaid payment rates to HMOs in fiscal year 2005-2006 meet the federal requirement for actuarially sound rates. The plan shall include the following strategies as well as other alternatives:

- (a) Establish or designate centers for transplant excellence.
- (b) Establish statewide contracts for durable equipment.
- (c) Decreasing administrative costs.
- (d) Shifting end stage renal patients to Medicare.

(2) A copy of the plan shall be submitted to the house and senate appropriations subcommittees on community health and the house and senate fiscal agencies by May 30, 2006.

*Michigan Department
of Community Health*



Jennifer M. Granholm, Governor
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HMO ACTUARIALLY SOUND RATES
Section 1700(2) of Public Act 154 of 2005
Report Prepared By: Medical Services Administration
Michigan Department of Community Health

Section 1700(2) of Public Act 154 of 2005 required the Department of Community Health (Department) to develop a plan to ensure that capitation rates paid to Medicaid Health Plans (MHPs) were actuarially sound.

(1) The department, in consultation with the Michigan association of health plans, shall develop a plan to assure that Medicaid payment rates to HMOs in fiscal year 2005-2006 meet the federal requirement for actuarially sound rates. The plan shall include the following strategies as well as other alternatives:

- (a) Establish or designate centers for transplant excellence.
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Overall Agreement

While the Department holds ongoing meetings with the MHPs regarding various issues related to the Medicaid contract, the Department met with the MHPs and representatives from the Michigan Association of Health Plans (MAHP) on three occasions to specifically discuss strategies for developing actuarially sound rates for FY 06 and beyond. The Department and the MAHP recognized that the Department had certified the rates for FY 06 as actuarially sound to the Centers for Medicare and Medicaid Services (CMS) in September 2005. These rates were built on assumptions regarding cost, inflationary trends, expected utilization, anticipated costs, MHP performance, and utilization management by the MHPs.

One of the key elements raised by MHPs for cost savings was the development of a new policy for observation stay in the hospital emergency department. The Department has not yet finalized a revised policy for observation stay. The Department agreed with the MAHP proposal that MHPs continue to implement policies voluntarily. The plans agreed to provide data to the Department to facilitate development of a more consistent policy in this area.

Both the Department and MHPs agree to have an interactive process in the rate development phase to assure that the final rates are based on the best possible information available. Accordingly, the development for FY 07 began a more interactive process as described later in this narrative. MHPs, the MAHP, and the Department are also committed to facilitating an interactive process for FY 08 to begin as soon as the FY 07 rates are finalized.

Transplant Centers

The Department proposes a two-prong approach to this issue. Specific hospitals in Michigan have developed transplant expertise. MHPs are encouraged to develop contracts or agreements with transplant centers to provide services to MHP members. The Department is committed to assisting the MHPs in obtaining these contracts and agreements. Additionally, the Department is reviewing the feasibility of implementing a change in enrollment status of post-transplant patients to ensure continuity of care for the patient without requiring the MHPs to provide significant out-of-network care.

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Durable medical equipment

The MAHP and the Department agree that this issue will be addressed by a collaboration of health plans through their association.

Administrative Costs

The Department implemented several procedural changes to decrease administrative burden on the MHPs while maintaining the necessary oversight of the Medicaid contract. For example, the Department modified the on-site review process to eliminate unnecessary review. Based on feedback from the MHPs, the Department improved the automated disenrollment of excluded populations and the automated enrollment of newborns. The Department worked with the health plans to implement contract changes streamlining the method of approval for member materials, marketing, and health incentive programs. The Department continues to work with MHPs and the Michigan Association of Health Plans to review additional cost savings proposals such as those identified in the MAHP' most current Medicaid White Paper for FY 07.

End-Stage Renal Disease (ESRD)

In response to a request from the MHPs, the Department is developing a strategy to systematically identify individuals eligible for Medicare and assisting these individuals in obtaining Medicare, as appropriate to ensure that Medicare becomes the primary payer.

Actuarially Sound Rates

As indicated above, the Department consulted with MHPs and MAHP regarding other factors in the development of actuarially sound rates. The Department sought the identification of key issues from MHPs and the MAHP to be reviewed in the FY 07 rate development and discussed at the May 17th. During this meeting, the Department and the State's Actuary from Milliman (the Department's contracted actuary for certifying the rates), provided detailed information on the following FY 07 rate development components:

- Chronic Illness and Disability Payment System (CDPS) risk score modeling
 - Based on diagnosis codes for chronic and disabling diseases
 - Developed from fee-for-service and managed care claims for FY 2005
 - Provided calculation of average risk score for each health plan on region-by-region basis
- Utilization of the MHP encounter data
 - Separate summaries were created for each plan
 - Summaries provided fiscal year utilization rates for FY 2004 and FY 2005
 - Data was summarized by category of service using criteria comparable to the rate setting process
- Specific issues addressed in the rate development process:
 - Maternity case rates
 - Incorporation of a dental benefit through Healthy Kids Dental
 - Regional factors
 - Hospital provider tax

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- Graduate medical education
- Foster children
- Medicaid policy changes

Subsequently, MHPs have provided additional information to the Department to improve the accuracy of the FY 07 rates. The MHPs, the Department and the MAHP have begun discussions concerning the format for FY 08 and the types of data required in order to assure that the FY08 rates will meet the CMS federal rules for actuarial rate development and guidelines produced by the American Academy of Actuaries.

The Department has fulfilled the legislative mandate to work with the MAHP on the development of actuarially sound rates. Communication is ongoing between the Department and the MAHP on policies and procedures the Department can implement to reduce MHP costs to ensure that rates remain actuarially sound. The Department is committed to working with the Legislature to ensure that Michigan can maintain the quality and cost-savings offered by the Medicaid managed health care program.